

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6491

Petition of Vermont Electric Cooperative,)
Inc. for authority to issue First Mortgage)
Bonds in the amount of \$2,750,000)

Order entered: 5/10/2001

I. INTRODUCTION

On April 3, 2001, Vermont Electric Cooperative, Inc. ("VEC") filed with the Vermont Public Service Board ("Board") a petition for approval for the issuance of its 2001 Series A Bonds, in the principal amount of \$2,750,000, and secured under a First Mortgage Bond Indenture. Notice of the filing was sent to the Vermont Department of Public Service ("DPS"). In support of the petition, VEC prefiled testimony of Richard D. Camp ("Camp"), the Chief Financial Officer of VEC, and Frederick Parker ("Parker"), a Vice President of CoBank, ACB ("CoBank"), the proposed lender and purchaser of VEC's 2001 Series A Bonds.

On May 9, 2001, the DPS recommended approving the petition without hearing, and filed a determination, pursuant to 30 VSA § 202(f) that the proposed financing is consistent with the electrical energy plan for the State of Vermont. The DPS's recommended approval was subject to the following three conditions, to which VEC has agreed.

1. VEC will submit by July 31, 2001, an application for approval, under 30 V.S.A. § 248, of the Hinesburg Substation.
2. VEC will submit by December 31, 2001, a proposed capital budget for the ensuing two years, and will provide for DPS review a list of capital projects planned for this year.
3. VEC will review the term of the financing to consider whether the term should be extended to more closely match the expected life of the capital assets being financed.

I have reviewed the petition, the supporting testimony and exhibits, and the correspondence of the DPS and VEC filed with the Board, as described above. I conclude that the approval of VEC's petition to authorize approval to issue up to \$2,750,000 in 2001 Series A

Bonds secured under VEC's First Mortgage Bond Indenture, subject to the conditions agreed to between VEC and the DPS, is consistent with the general good of the state. Based on the petition and the supporting testimony and exhibits presented in this Docket, and the correspondence of VEC and the DPS, as described above, I hereby report the following findings and conclusions to the Board in accordance with the provisions of 30 V.S.A. § 8.

II. FINDINGS OF FACT

1. On June 26, 1997, the Board issued a decision authorizing VEC to issue Mortgage Bonds in the amount of \$21,500,000. Board Docket No. 5971.

2. Such issuance was an essential component of VEC's reorganization plan allowing it to emerge from bankruptcy. The Mortgage Bonds were issued under a First Mortgage Indenture between VEC and the Howard Bank, N.A. as successor trustee to The Bank of New York (the "First Mortgage Indenture"). The Mortgage encumbers various assets of VEC, including all real estate, plant and equipment, with limited exceptions. Petition at 1.

3. Since the First Mortgage Bonds were issued in September 1997, VEC has paid down \$3,225,000 of the principal of those bonds. Camp pf. at 1.

4. The 2000 Series A Bonds were issued to CoBank, ACB. Camp pf. at 1.

5. On June 22, 2000, the Board issued a decision authorizing VEC to issue an additional bond, designated 2000 Series A Bond, under the First Mortgage Indenture, in the principal amount of \$500,000. Board Docket No. 6393.

6. Over the past three years, gross additions to VEC plant have been over \$8,000,000 and membership equity has increased by approximately \$1,300,000. Camp pf. at 2.

7. VEC has also entered into a settlement with the Village of Derby Line, concerning its petition for municipalization of a portion of VEC's service territory. That settlement, approved by the Public Service Board in December 2000 in Docket 5246, calls for a cash payment of \$75,000 and other consideration. Camp pf. at 2.

8. The 2001 Series A Bonds in the amount of \$2,750,000 will be issued to CoBank. CoBank has previously lent money to VEC and has proposed a cost and fee for the 2001 Series A Bonds that is a reasonable market rate and low interest cost to VEC. VEC will be eligible for patronage refunds as a member of CoBank. Camp pf. at 2.

9. VEC intends to use the proceeds of the 2001 Series A Bonds to repay outstanding short-term indebtedness and finance the settlement with Derby Line. The proceeds from the 2001

Series A Bonds will also provide funds to VEC for additional capital improvements. Camp pf. at 2.

10. The 2001 Series A Bonds will mature within approximately 10 years from the date of issuance. The 2001 Series A Bonds will be issued under a supplement to VEC's existing First Mortgage Indenture and secured on a pari passu basis with VEC's outstanding first mortgage bonds. Camp pf. at 3; Parker pf. at 1-2.

11. The 2001 Series A Bonds will be subject to CoBank's terms and conditions embodied in the Master Loan Agreement. Parker pf. at 1-2.

12. It is estimated that the 2001 Series A Bonds would bear the following interest rates:

Variable	6.84 Percent
1-year Fixed	6.23 Percent
2-year Fixed	6.52 Percent
3-year Fixed	6.77 Percent
4-year Fixed	7.05 Percent
5-year Fixed	7.19 Percent
10-year Fixed	7.81 Percent

Parker pf. at 2.

13. These rates are estimates as of April 2, 2001, and are subject to change daily. The final rates will be determined on the date of actual advance of funds. VEC would choose either the variable rate or fixed rate option. Parker pf. at 2-3.

13. The DPS has examined the proposed financing and recommends its approval, provided the Board adopts the recommendations and conditions contained in the DPS letter and the conditions in the § 202 Determination. DPS letter dated May 9, 2001.

III. DISCUSSION

On the basis of the evidence of record, I recommend that the Board grant VEC's petition for the issuance of the 2001 Series A Bonds in an amount not to exceed \$2,750,000, as secured under the First Mortgage Indenture, subject to the conditions agreed to by the DPS and VEC. I find that the issuance of the 2001 Series A Bonds is consistent with the good of the State of Vermont. The financing will allow VEC a source of capital at reasonable rates and upon reasonable terms. I also recommend that the matter be decided without hearing, and that the Board adopt the conditions contained in the DPS letter of May 9, 2001, and the § 202(f) determination. All parties have waived the opportunity to comment on this Proposal for Decision in accordance with 30 V.S.A. § 811.

Dated at Montpelier, Vermont, this 8th day of May, 2001.

s/Ennis John Gidney
Ennis John Gidney
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings of Fact and recommendations of the Hearing Officer are adopted.
2. The petition of Vermont Electric Cooperative, Inc. to issue the 2001 Series A Bonds, in an amount not to exceed \$2,750,000, and secured under the First Mortgage Indenture, is consistent with the good of the State of Vermont and is hereby approved.
3. Vermont Electric Cooperative, Inc. shall submit by July 31, 2001, an application for approval, under 30 V.S.A. § 248, of the Hinesburg Substation.
4. Vermont Electric Cooperative, Inc. shall submit by December 31, 2001, a proposed capital budget for the ensuing two years, and shall provide for DPS review a list of capital projects planned for this year.
5. Vermont Electric Cooperative, Inc. shall review the term of the financing to consider whether the term should be extended to more closely match the expected life of the capital assets being financed.
6. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that the Vermont Electric Cooperative, Inc. may implement with the proceeds of the issuance of the 2001 Series A Bonds. Nothing in this approval shall preclude the Vermont Department of Public Service, or any other party, or the Board, from reviewing or challenging those expenditures or the Vermont Electric Cooperative, Inc.'s capital structure in any future proceeding.

DATED at Montpelier, Vermont, this 10th day of May, 2001.

<u>s/Michael H. Dworkin</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: May 10, 2001

ATTEST: s/Judith C. Whitney
Deputy Clerk of the Board

Notice to Readers: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or mail) of any technical errors, in order that any necessary corrections may be made. (E-mail address: Clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.